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August 28, 2002

08-30-2002 A11:18

Secretary William Lyons
California Department of Food and Agriculture
1220 N Street
Sacramento, CA 95814

Re: Petition for a hearing on Class 4a

Dear Secretary Lyons:

The purpose of this letter is to petition you to call a hearing to consider rolling back the *extra* make allowance granted on January 1, 2002 to powder makers in the Class 4a milk pricing formula.

There are two major reasons that justify the department calling a hearing on the class 4a formula.

One: Natural gas prices have returned to more historically normal levels and therefore the cost to make nonfat dry milk should also have returned to more historic levels. Thereby, a roll back of the extra make allowance for powder is justified. Our analysis of the spot market shows that the elevated natural gas prices lasted for about six months. The powder makers are now going into the ninth month of cost recovery from the higher make allowance.

Two: Falling dairy commodity prices have lowered producer prices dramatically since the November 29, 2001 4a hearing. Times are very difficult for producers. Most producers are in a negative cash flow position. At times like these every penny matters. Producers can no longer afford to absorb the additional cost of the extra make allowance that was given to the powder manufacturers in January.

We are asking you to immediately call a hearing for the purpose of considering rolling back the extra make allowance granted in the class 4a formula.

There are two other items that a class 4a hearing should consider. Department staff indicated that an update of the 1998 butter and powder yield study was going to be completed by the end of August. Any data developed by that study should also be considered at this hearing. Also, information gleaned from the Dairy Market News reports of the United States Department of Agriculture indicate that market prices for wholesale butter are consistently running above the CME -4.5 cents, that is currently used in the 4a formula. This item also should be considered at the hearing.

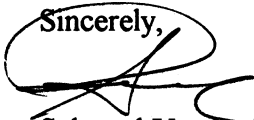
13545 Euclid Ave - Ontario, CA 91761 - Phone: 909-628-6018 Fax: 909-591-7328

Email: milkproducerscouncil@juno.com

We have attached proposed language changes for Section 300.0(D)(1)(2) of the Milk Stabilization Plan. However, that language proposal is subject to change based on updated information.

We thank you in advance for your serious consideration of this petition.

Sincerely,

A handwritten signature in black ink, appearing to read 'Sybrand Vander Dussen', is written over the word 'Sincerely,'.

Sybrand Vander Dussen
1st Vice Chairman,
Milk Producers Council

cc: MPC Directors

Proposed Stabilization Plan Language Changes

Section 300.0 (D)

- (1) For all milk fat, not less than the price per pound computed by the formula using the simple average of the Grade AA butter price quotations for the last significant trading action for sale, offer or bid of butter at the Chicago Mercantile exchange, less a *market* adjustment of *two cents (\$0.02)*, less a manufacturing cost allowance of ten and two-tenths (\$0.102), and the result multiplied by a yield factor of 1.2.
- (2) For all milk solids-not-fat, not less than the weighted average price per pound for all Grade A and extra grade nonfat dry milk for human consumption sold f.o.b. California manufacturing plants for the period beginning the 26th day of the previous month and concluding the 25th day of the current month, less a manufacturing cost allowance of *fourteen cents (\$0.14)*, ~~multiplied by a yield factor of ninety-nine hundredths (.99).~~